

MR BARCLAY

DIRECT BROADCASTING BY SATELLITE (DBS)

We feel there is a danger of the Government drifting into a greater commitment to this project than its past history warrants.

The Government should rest content with the BBC's decision to seek a partnership with an IBA contractor, and should not attempt to pressurise the BBC into sticking with the project if this option fails to materialise.

We have too long a history of arm-twisting nationalised industries - and private ones too - into costly enterprises against their better judgment, with disastrous results.

1. DBS always was a commercial venture based on the BBC's judgment. Leon is slightly misleading in referring to the Government's decision in March 1982 to "make a start with DBS", primarily for industrial reasons. There is no Government commitment to DBS, much as we hope it will take off and develop new technologies, broadcasting opportunities, etc.
2. If the BBC now judge that it is not likely to be a commercial success, the Government should respect their decision.
3. There should be no question of us attempting to override commercial judgments, although we can propose alternatives, such as the IBA option or closer links with cable, which could then be commercially assessed. We should not prevent the BBC purchasing alternative satellite capacity if that is a sensible commercial option.
4. The embarrassment is largely Unisat's own fault for committing funds without being certain of the BBC's decision. It is probably true that they might have been misled on the potential for DBS, either because the BBC thought they should be in new broadcasting opportunities without scrutinising the economics, and/or because DTI pushed them too hard (Kenneth Baker's enthusiasm again). However, Government was not and is not committed.
5. Withdrawal by the BBC would anyway surprise nobody - or at least it shouldn't:

- The BBC is not a commercial organisation. DBS is a new service which won't be nationwide and will not be underwritten by the licence fee. It has to be run as a commercial, indeed entrepreneurial business. The BBC is not best equipped for this. Hence, the search for a partner - Thorn EMI - who have now withdrawn because it doesn't look commercially attractive.
 - Since the original enthusiasm by the BBC for DBS - because it was new and prestigious - the picture has significantly changed with the opportunities for cable which our policies have opened up. Cable will compete to a large extent with DBS, particularly on films, etc. Hence the market prospects and economics probably look much less attractive than they did. The BBC claim the Government changed the rules, but that brings us back to the fact that we always left DBS to the BBC's judgment of commercial opportunities.
 - The BBC have always been unhappy about the Government's acceptance of the Part Committee recommendations on standards. This chose MAC - an IBA proposal - rather than PAL which the BBC were pushing.
6. It is also premature to argue that we must proceed because the rest of Europe will leap ahead. Their plans are equally unclear.

Conclusions

- (a) Alternatives involving IBA and others should be pursued.
- (b) We should not take Unisat's threats to scrap the project as early as January too seriously. It may only be a negotiating position to push us into giving commitments.
- (c) The Government is not committed to DBS. We leave it to the commercial judgment of others. We should not intervene to override commercial judgment.
- (d) There is no need to offer interim finance.
- (e) We should avoid any panic and rushed decisions.



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